

**REPORT OF THE AUDIT OF THE
LETCHER COUNTY
SHERIFF**

**For The Year Ended
December 31, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LETCHER COUNTY SHERIFF

**For The Year Ended
December 31, 2009**

The Auditor of Public Accounts has completed the Letcher County Sheriff's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$92 from the prior year, resulting in excess fees of \$1,034 as of December 31, 2009. Revenues increased by \$92,964 from the prior year and expenditures increased by \$93,056.

Debt Obligations:

The Sheriff's office was committed to two lease agreements as of December 31, 2008. The first lease agreement is for three vehicles. Future principal and interest payments of \$22,049 are needed to meet this obligation. The second lease agreement is for computers. Future principal and interest payments of \$4,895 are needed to meet this obligation.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Letcher County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 8, 2010 on our consideration of the Letcher County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Letcher County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

September 8, 2010

LETCHER COUNTY
DANNY WEBB, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

State Grants	\$	31,439	
State - Kentucky Law Enforcement Foundation Program Fund			26,359
Federal - High Intensity Drug Trafficking Area (HIDTA)			17,000
State Fees For Services			42,189
Circuit Court Clerk			888
Fiscal Court			139,633
County Clerk - Delinquent Taxes			5,206
Commission On Taxes Collected			341,270
Fees Collected For Services:			
Auto Inspections	\$	3,959	
Accident and Police Reports		378	
Serving Papers		30,620	
Carrying Concealed Deadly Weapon Permits		10,770	45,727
Other:			
Add-On 10% Sheriff Fee		41,186	
School Resource Officer		38,088	
Sheriff's Fee on Taxes		4,145	
Refunds/Overpayments		8,666	
Conveying Prisoners		6,600	
Forfeitures		1,455	100,140
Interest Earned			5,076
Borrowed Money:			
Bank Note		20,000	
State Advancement		110,000	130,000
Total Revenues			884,927

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
DANNY WEBB, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2009
(Continued)

Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Salaries	\$ 152,146	
Court Security	44,067	
Office Salaries	34,325	
Dispatchers	86,340	
KLEFPF	18,834	
School Resource Officer	33,803	
Victims Advocate	28,850	398,365

Employee Benefits-

Employer's Share Social Security	33,552	
Employer's Share Retirement	49,228	
Employer Paid Health and Life Insurance	50,665	
Unemployment Insurance	4,423	137,868

Contracted Services-

Accounting Services		2,209
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Materials and Supplies-

Office Materials and Supplies	8,838	
Uniforms	4,257	13,095

Auto Expense-

Gasoline	37,297	
Maintenance and Repairs	9,937	47,234

Other Charges-

Conventions and Travel	1,963	
Dues	712	
Postage	9,242	
Phone/TV	15,285	
Bond	2,268	
Carrying Concealed Deadly Weapon Permits	3,680	
Copier	1,596	
Transport Prisoners	5,611	
Promotional Products	3,651	
Bad Debt Expense	40	
Miscellaneous	3,161	47,209

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
DANNY WEBB, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2009
(Continued)

Expenditures (Continued)

Debt Service:

State Advancement	\$	110,000	
Bank Note		20,000	
Interest on Bank Note		50	
Lease Payments		<u>24,958</u>	<u>\$ 155,008</u>

Total Expenditures		<u>\$ 800,988</u>
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Net Revenues	83,939
Less: Statutory Maximum	<u>79,380</u>

Excess Fees	4,559
Less: Training Incentive Benefit	<u>3,525</u>

Excess Fees Due County for 2009	<u><u>\$ 1,034</u></u>
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The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to the plan to be allocated as follows: 5 percent to the plan and 1 percent will go to the KRS insurance fund. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months of the year.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 9 percent of their salary to the plan to be allocated as follows: 8 percent to the plan and 1 percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 29.50 percent for the first six months and 32.97 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87 and the member must be a minimum of 57 years of age) or the member is age 65 with minimum 60 months of service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008, aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

LETCHER COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2009
 (Continued)

Note 3. Deposits

The Letcher County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Letcher County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Leases

The Sheriff's office was committed to the following leases as of December 31, 2009:

Items		Term of	Ending	Principal Balance December 31,
Purchased	Payment	Agreement	Date	2009
(3) 2007 Dodge Chargers	\$2,063 monthly	42 Months	11/22/10	\$ 22,049
Dell Computers	\$4,895 annual	2 Annual	07/03/10	4,895

Note 5. State Grant - Victim Advocate Funding

The Letcher County Sheriff's office received funding through the Office of the Attorney General, Frankfort, KY for a victim advocate staff position. The Sheriff's office received \$30,439 in reimbursements for salary and benefits for this staff position during calendar year 2009.

Note 6. Drug Forfeiture Account

The Letcher County Sheriff has a drug forfeiture account with a beginning balance of \$13,894. The Sheriff received forfeited funds of \$95,997 and disbursed \$109,605 during calendar year 2009. The balance at December 31, 200 is \$286.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 7. Seized Funds Payable

Funds totaling \$7,490 confiscated during two separate drug related arrests was found missing in (or about) January 2006. The money was put in an evidence locker located in a closet while awaiting court order for distribution. When the Sheriff received a court order for distribution of funds in one of the cases, the funds for both cases were discovered as missing. The issue has been referred to the Kentucky State Police for investigation. If the Sheriff recovers these funds, he should forward 10% to the Commonwealth Attorney as noted in the court order of forfeiture and the remainder should be distributed to the Sheriff's forfeiture account.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Letcher County Sheriff for the year ended December 31, 2009, and have issued our report thereon dated September 8, 2010. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Letcher County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation to be a material weakness.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Letcher County Sheriff's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Letcher County Fiscal Court, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

September 8, 2010

COMMENT AND RECOMMENDATION

LETCHER COUNTY
DANNY WEBB, SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2009

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the Sheriff's office has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions, the Sheriff has limited options for establishing an adequate segregation of duties.

Cash receipts by mail are not received and logged by someone who is independent of handling and/or posting cash receipts to the ledger. At a minimum, only one person should be designated to receive and open mail. Also, the employee who records cash receipts prepares the deposits and completes the bank reconciliations. Lastly, authorized check signers are not independent of check preparation, purchasing, recording expenditures, and performing bank reconciliations. Good internal controls dictate that the same employee should not be handling, depositing, expending, recording and reconciling cash receipts and disbursements.

If the Sheriff cannot segregate these duties, compensating controls such as the Sheriff recounting the daily deposits, agreeing deposits to daily reports, and agreeing deposits to the receipts ledger should be implemented. The Sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger. The Sheriff could also periodically compare the bank reconciliations to the balance in the checkbook and document this by initialing and dating the bank reconciliation and the balance in the checkbook. We recommend the Sheriff review office procedures to address this control deficiency.

Sheriff's Response: None.

